

CHINA'S WTO ACCESSION IN AMERICAN POSTWAR STRATEGY

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Thank you very much. Let me thank Jim Orr and Bill Frenzel very sincerely for this chance to speak with you on one of the most important American trade and foreign policy decisions in many years: China's accession to the World Trade Organization and permanent Normal Trade Relations status.

It is especially appropriate to discuss this with the Bretton Woods Committee -- because China's WTO accession and PNTR, while in its most basic sense trade and economic issues, also bring us appreciably closer to completion of the vision inherent in the Bretton Woods Conference.

ONE-WAY CONCESSIONS

As trade policy, the choice before Congress next week is actually quite simple. Our agreement on WTO accession secures broad-ranging, comprehensive, one-way trade concessions on China's part. These concessions:

- Open China's markets to American exports of industrial goods, services and agriculture to a degree unprecedented in the modern era.
- Strengthen our guarantees of fair trade.
- Give us far greater ability to enforce China's trade commitments.
- And facilitate the WTO accession of Taiwan, which has made an equally valuable set of market access commitments.

By contrast, we change no market access policies -- not a single tariff line. We amend none of our trade laws. We change none of our laws controlling the export of sensitive technology. We agree only to maintain the market access policies we already apply to China, and have for over 20 years, by making China's current Normal Trade Relations status permanent.

This is the only policy issue before Congress. Regardless of our decision, China will enter the WTO. Regardless of our decision, it will continue to sell in the American market. The only question Congress will decide is whether we accept the benefits of China's accession and the agreement we negotiated; or whether by turning away from permanent NTR, we enable our competitors to get them while Americans are left behind.

PRINCIPLES OF TRADE POLICY

From the strict perspective of American economic self-interest, there is little reason to say more. But China's accession also has implications for many of the broader goals at the foundation of modern trade policy; which were also the goals of the Bretton Woods Conference itself.

Franklin Roosevelt, requesting Congressional passage of the Bretton Woods proposals in 1945, wrote that as the Second World War approached its end:

"The point in history at which we stand is full of promise and danger. The world will either move toward unity and widely shared prosperity, or it will move apart... We have a chance, we citizens of the United States, to use our influence in favor of a more united and cooperating world. Whether we do so will determine, as far as it is in our power, the kind of lives our grandchildren will live."

We are familiar with the response. With creation of the IMF and the World Bank in 1945 -- and over a few years afterward, ending with the ratification of the NATO Treaty in 1949 -- Americans established policies and institutions of postwar internationalism that have served us for decades:

- Collective security, reflected by the United Nations, NATO, the Rio Treaty and our alliances with the Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the foundation of the General Agreement on Tariffs and Trade, or GATT, on the other.

ACCOMPLISHMENTS OF THE TRADING SYSTEM

Our generation, as the grandchildren and great-grandchildren of whom Roosevelt spoke, has had the full benefit of this extraordinary accomplishment.

To look at the trade element of the postwar policy structure, since the foundation of the GATT in 1948, we have completed eight negotiating Rounds, and 113 new members have joined the 23 GATT founders. The agenda has broadened from tariffs -- which have dropped by 90% on average -- to non-tariff barriers, dispute settlement, agriculture, services, telecommunications, intellectual property, information technology, financial services and electronic commerce. It continues today, with the WTO's decision in February to open negotiations on agriculture and services, and our work to broaden these talks into a new Round.

When we step back for a moment, we see the enormous benefits the work has brought:

- Growth and Rising Living Standards: The opening of world markets has helped to spark what is in effect a fifty-year boom: since 1950, trade has expanded fifteen-fold; world economic production grown six-fold; and per capita income nearly tripled. And the result has been historically unprecedented social progress: since the 1950s, world life expectancy has grown by twenty years, infant mortality dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world.
- Economic Security: In the Asian financial crisis, with 40% of the world in recession, the respect WTO members had for their commitments kept open the markets necessary for affected nations to recover. Thus the system of mutual benefit and rule of law represented by the WTO helped prevent a cycle of protection and retaliation like that of the 1930s; and ultimately to avert the political strife that can erupt in economic crisis.
- Peace and Stability: And the trading system has helped us address political challenges fundamental to world peace and stability. It helped reintegrate Germany and Japan in the 1950s, and then the nations emerging from colonial rule in the 1960s and 1970s. It has now taken up a task of equal gravity, as after the Cold War, nearly 30 nations breaking with communist planning – Albania, Croatia and Bulgaria; the Baltics, Ukraine, Russia, Georgia, and Armenia; the Kyrgyz Republic and Mongolia – seek WTO membership to reform their economies and integrate with the world.

CHINESE REFORM AND U.S. TRADE POLICY

With this we come to China. The world's largest nation, for many years, was one of the great rents in the structure of shared responsibility and mutual benefit represented by the Bretton Woods institutions and the GATT.

When our modern relationship began, China's economy was almost entirely divorced from the outside world. After the Communist revolution in 1949, it had expelled foreign businesses and banned direct economic contact between Chinese citizens and the outside world. At home it offered virtually no space for private farming or business; externally, it conducted what trade it felt necessary through a few Ministries. Such policies impoverished China and contributed to the revolutionary role it adopted in Asia: isolated from Pacific markets, it had little stake in a peaceful and stable region, and every Pacific nation felt the consequences.

In the intervening years, American trade policy has worked to end this isolation. Our policies have advanced specific American trade interests; but they also have pushed forward a strategic vision. By opening China's markets, and helping to give China access to world markets, we have sought to promote reform and economic liberalization within China; ensure that this nation of 1.2 billion plays its proper role as a market and a source of economic growth for its Asian neighbors; ultimately, to help it find a different and healthier role in the Pacific.

This is a strategy consistent with China's own reforms. At home, since the 1970s, China

has reversed the most damaging policies of the Great Leap Forward and Cultural Revolution era, abolishing rural communes and reviving private business in villages and cities. Externally, reform has begun to open China to the world, substantially relaxing although not abandoning entirely bans on foreign investment and private export trade.

American trade policy has worked with reform at every step. This has been consistent and bipartisan, from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979; renewal of NTR every year since; most recently, detailed agreements on intellectual property, textiles and agriculture. Each rested on concrete American trade interests; each also helped advance reform in China, and integrate China into the Pacific and world economies.

To choose a case in point, our work on intellectual property rights since the early 1990s rests on our commitment to fight theft through piracy of our most creative industries; with more than 70 pirate manufacturing facilities closed, it has helped us to nearly eliminate China's manufacturing and export of pirate CDs and CD-ROMs. But it means more than this: to develop an intellectual property policy is to draft and publish laws; to train lawyers and officials; to improve and ensure access to judicial procedures; ultimately, to create due process of law where it did not exist before. The same is true, more recently, with our work with the Chinese Ministry of Agriculture to develop modern sanitary and phytosanitary procedures.

These are two examples of a much broader process of economic reform, opening to the world, and adoption of internationally accepted trade principles which have served China, its neighbors and ourselves well. In China, they have helped 200 million Chinese men and women escape from poverty. For us, they have sparked \$10 billion in export growth since our Commercial Agreement. And their advantages go beyond material gain.

While China remains an authoritarian and repressive country, reform has strengthened personal freedom and begun to develop the rule of law. It has also made China a more integrated, responsible member of the Pacific community. To note an example, when the Asian financial crisis began, South Korea and the ASEAN were (setting Hong Kong aside) the source of a seventh of China's foreign direct investment, and the market for a sixth of its exports. Thus, while in 1967 these nations were China's ideological rivals, in 1997 they were customers who support Chinese factories and farm incomes, and the investors who create Chinese jobs. This is the backdrop to China's policy in the crisis; and thus also to the fact that the crisis remained an economic and humanitarian disaster rather than a security crisis. It demonstrates, in modern times, the enduring insight of the Bretton Woods leaders on the support an open world economy can give to peace.

REFORM INCOMPLETE

But the work is not yet done. As the economist and reform advocate Cao Siyuan has put it, China has opened the door; but only to reach out and cautiously shake hands.

To look back again on the financial crisis, while China's policy was constructive, important and valuable, its neighbors did not have the opportunity to use China as a market which could spur recovery. ASEAN and Korean exports to China – already low – actually dropped between 1997 and 1998. Or to use another index, closer to home, our \$10 billion in export growth to China since 1980, while substantial, is far less than our export growth to almost any other major trading partner over the same period.

This reflects the fact that reform is incomplete. Some policy legacies of the revolutionary era remain in force today, and others are only partly reformed. Beyond these are more typical trade barriers: high tariffs, largely secret quotas, and industrial policies that require investors to transfer technology, purchase parts only from Chinese sources, and so forth. More generally, the country suffers from poorly developed market institutions and the lack of a reliable rule of law.

These are barriers to American products, but problems for China as well. As China's senior leaders realize – lead to corruption and economic inefficiencies which block China's own prospects for sustainable growth, job creation and technological progress.

THE WTO ACCESSION

Against this background, the WTO accession assumes its full economic significance. Our bilateral agreement address each barrier to American goods, services and farm products, and all the major unfair trade practices. As it does so, it will help China build an economy prosperous and open to the world, to its own benefit and that of its Asian neighbors.

Each commitment is specific, detailed, and fully enforceable -- through our own trade laws, WTO dispute settlement, periodic multilateral review of China's adherence, multilateral pressure from all 136 WTO members, and other mechanisms such as the special anti-dumping rules and anti-import surge remedies. We are already preparing, with the President's most recent budget request, for the largest enforcement effort ever devoted to a trade agreement.

Finally, China's entry will facilitate Taiwan's entry into the WTO. This will have substantial trade benefits, as Taiwan is already a larger export market for us than China. And the opening of both economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait. It should thus be no surprise that Taiwan's new leadership supports both China's WTO membership and normalized trade between China and the United States.

WTO ACCESSION AND BROADER INTERESTS

In economic terms, then, to reject PNTR would be foolish. To enter the WTO, China makes one-way concessions; if we do not grant permanent NTR, others will take advantage of them at our expense. And just as the economic merits of the foundation of the GATT system ago were simply one element in the much larger vision Roosevelt and Truman built between the conclusion of the Bretton Woods Conference and the ratification of the NATO treaty, so today

the economic consequence of rejecting PNTR would be the least of the damage.

We have concerns and responsibilities towards human rights and the rule of law in China. Here, many Chinese dissidents and Hong Kong democratic leaders – Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, a founder of China's modern human rights movement; environmentalist Dai Qing; Martin Lee, leader of the Hong Kong Democratic Party – believe WTO accession and PNTR are the most significant steps toward reform and the rule of law in China in twenty years. To reject permanent NTR is to ignore their views and turn our backs on nearly thirty years of work to support reform, improve the legal system and offer hope for a better life to hundreds of millions of Chinese. And it is to give up the hope of contributing in the future to a China freer, more open to the world, and more responsive to the rule of law than it is today.

And we have a fundamental national security interest in a peaceful, stable, mutually beneficial relationship with China. And in this sense, to reject PNTR would be reckless.

No trade agreement will ever solve all our disagreements, but this will address many of them; and if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world's largest country.

Such a statement would threaten our work on all the specific issues in our China policy agenda. It would complicate for the foreseeable future our Pacific alliances, as all our Asian friends and allies would view rejection of PNTR as unprovoked rejection of stable and constructive relations with their largest neighbor. Over the long term, and perhaps most important, China -- seeing no economic reason for our decision -- would become more likely to read hostile intent into our every move; and this in turn would raise the prospect that our present disagreements and tensions will escalate into a broader confrontation of great consequence.

CONCLUSION

But if we have the wisdom and confidence to make the right choice, before us is a remarkable opportunity.

Over three decades, trade policy has strengthened China's stake in prosperity and stability throughout Asia. Together with our Pacific alliances and military commitments; in tandem with our advocacy of human rights; and in the best tradition of postwar American leadership; it has helped us build a relationship with the world's largest nation which strengthens guarantees of peace and security for us and for the world.

WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process -- and thus in the broader process which began at the Bretton Woods Conference -- in many years.

That is the opportunity. These are the stakes as the Congressional debate begins. This is why the Administration is committed to permanent NTR on the basis of this historic agreement, and why it is so important that we succeed.

Thank you very much.